

Fiscal Highlights

Initial Gas Tax Increase Set at 4.9 Cents per Gallon - Thomas E. Young

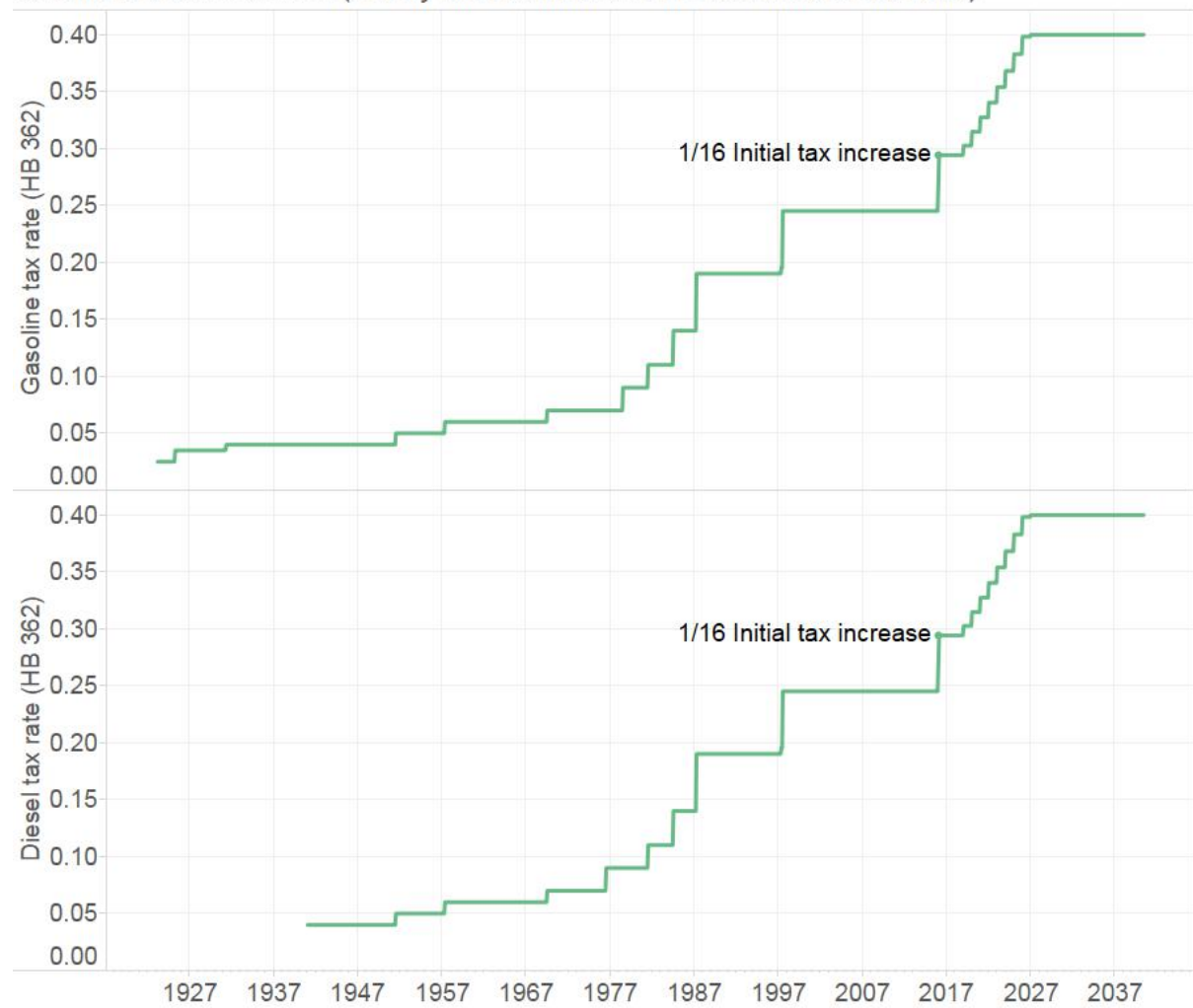
On Tuesday, the Executive Appropriations Committee heard options regarding the definition of "statewide average rack price." The final recommended definition by the Tax Commission parallels the assumptions behind the gasoline tax fiscal notes discussed during the Legislative session, which defined the statewide average rack price by the following characteristics: regular, 10% ethanol, 9.0 Reid Vapor Pressure, net, average, closing price for the state as a whole. This initial year the Utah average rack price is \$2.24 per gallon.

This statewide average rack price matters because future gasoline and diesel tax rates are linked to this price. The \$2.24 per gallon is less than the \$2.45 per gallon minimum, so the tax increase is \$2.45 multiplied by 12 percent less the current tax rate of \$0.245 per gallon, or 4.9 cents per gallon. The 4.9 cents per gallon represents a tax increase of about \$25 million in FY 2016 and about \$75 million in FY 2017.

Future years' tax increases are linked to the statewide average rack price based upon where the average rack price for the fiscal year ends up. If the rack price rises above \$2.45 per gallon, but below \$3.33 per gallon, then the tax rate is the average rack price multiplied by 12 percent. If the rack price is below the minimum (\$2.45) or above the maximum (\$3.33), then the tax rate is the minimum or maximum rack price multiplied by 12%.

Here's a history of the gasoline tax rate since inception. Overall, the upcoming January 1, 2016 gas tax increase represents the 12th gas tax increase since its inception in 1923. There has never been a gas tax rate decrease.

Gasoline & Diesel Tax Rates (History and Potential Rate Increases in the Out Years)



Source: LFA, Tax Commission